

In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated.

1. (a) **Explain the difference between short-run equilibrium and long-run equilibrium in monopolistic competition.** **[10 marks]**

Candidates **may** include the assumptions of monopolistic competition, which **may** include:

- large number of firms
- very elastic demand
- firms are small relative to the size of the market
- no or low barriers to entry or exit
- perfect knowledge in the market
- product differentiation
- firms are short-run profit maximisers.

Candidates **may** include the difference between short-run equilibrium and long-run equilibrium, which **may** include:

- distinction between short run and long run
- definition of equilibrium
- explanation of profit maximization
- firms can make abnormal profits (economic profits) in the short-run
- abnormal profits (economic profits) will attract new entrants into the market
- demand for existing firms falls
- the process continues until normal profits (zero economic profits) are made in the long-run.

Diagrams for short-run profit and for long-run normal profit are expected.

If candidates approach the question from the perspective of short-run losses, they can be fully rewarded.

Examiners should be aware that candidates might take a different approach, which should be fully rewarded if appropriate.

- (b) **“Perfect competition is a more desirable market form than monopolistic competition.” Discuss.** *[15 marks]*

Candidates **may** compare the assumptions of perfect competition with those of monopolistic competition.

Candidates **may** discuss the advantages and disadvantages of perfect competition and compare them to monopolistic competition.

Advantages of perfect competition **may** include:

- allocative and productive efficiency
- consumer gains from low prices
- consumer sovereignty.

Disadvantages of perfect competition **may** include:

- firms unable to invest in research and development due to lack of abnormal/supernormal profits
- lack of choice of products.

Advantages of monopolistic competition **may** include:

- possible economies of scale to be gained
- consumer benefits from greater variety of products to choose from
- non-price competition leads to product development and advertising.

Disadvantages of monopolistic competition **may** include:

- higher price and lower output than under perfect competition
- firms do not produce at the least-cost point
- less efficient allocation of resources than in perfect competition.

Examiners should be aware that candidates may take a different approach, which if appropriate should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments